

The Treasury Note



A monthly newsletter
of municipal finance

September 1, 1996

Rating Upgrade From Standard & Poor's

Recognizing the sustained improvements in California's economy, Standard and Poor's upgraded California's credit rating to A+ from A on July 31. This is the second upgrade that the State of California has received in 1996 from a major credit rating agency (Fitch upgraded the State's rating to A+ in February). For the first time in recent history, two major rating agencies upgraded the State's credit ratings within 6 months.

The upgrades and the positive outlook expressed by many leading economists contributed to the improvement in the demand for State of California issued securities. The State benefited from the upgrades during our recent sales of bonds and notes.

Bondholders also benefited from the upgrades. The market values of their bonds have increased due to the State's improved credit rating.

Currently, the credit ratings on the State's \$18 billion general obligation debt are: A1 from Moody's, A+ from Standard & Poor's and A+ from Fitch. In addition, the rating agencies have upgraded their rating of most of the State's \$5 billion of lease purchase revenue debt. For the specific rating of your lease purchase revenue bond, please call (916) 653-3451.

1996-97 RANs

The State sold \$3 billion of Revenue Anticipation Notes (RANs) on July 31. The sale was underwritten by a syndicate of 19 firms with Lehman Brothers as the lead underwriter.

The RANs were well received by investors. A strong pre-marketing effort from the syndicate and the Treasurer's Investor Relations Program resulted in \$1.2 billion of retail orders prior to the sale. To maximize the investor base, the Treasurer structured the \$3 billion RANs in three series: \$2.15 billion "unenhanced" fixed rate notes; \$100 million index rate notes; and \$750 million variable rate notes. At the end of the order period, there was sufficient demand for the fixed rate notes to reduce the yield. The Treasurer saved the State approximately \$2.3 million in interest expense through marketing efforts and structuring of the RANs.

Federal Welfare Reform Impact on State Budget

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (H.R. 3734) was signed into law by President Clinton in August. The Act repeals and amends several public assistance programs and replaces certain programs with block grants. It also allows a state to determine: (1) whether or not to backfill for the reduction of federal funds; (2) whether or not to exercise federal options to deny eligibility of legal noncitizens for certain programs; and (3) the extent to which individuals are ineligible for state and federal programs, county general assistance, and indigent health services.

On August 20, the State Legislative Analyst's Office (LAO) released a preliminary analysis of the Act and its fiscal effect on California. Among other things, the analysis assumes the implementation of block grants for temporary assistance for needy families in November 1996. The net fiscal effect is estimated to be a loss of \$51 million in federal funds in 1996-97. LAO did not estimate the impact on State and county expenditures as the State has yet to decide to implement the options listed above. However, a loss in budgeted savings of \$277 million in 1996-97 was identified by the Department of Finance and LAO because the Act does not provide the maintenance-of-effort relief for the State Supplementary Program.

The State's decision will have an effect on its budget and cash flow. At this point, we believe the impact on the current year (1996-97) will be minimal as the State will have to enact certain legislation to fully implement the federal welfare reform.

Stay tuned for future developments!

Revenue Update

According to the Department of Finance, State General Fund revenues for July are \$136 million over budget.

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Ask the State Treasurer

Q: My State of California registered bond has matured. Do I need to endorse the back of the certificate before I mail it to your office?

A: It is unnecessary to endorse the certificate if the redemption payment is to be made exactly as registered. If, however, you want the redemption payment to be made to another party, the certificate must be endorsed. The endorsement must have a Medallion Signature Guarantee and include specific instructions on how you want the payment to be made.

Please call the Bond Services Section at (916) 653-2884 if you have any questions or need further information.

Q: How long do I have after my bond has matured to submit it for payment?

A: Our Office will pay your bond up to ten years from the maturity date. However, all interest ceases to accrue on the maturity date. If you have any questions, please call the *Bond Services Section* at (916) 653-2884.

The Treasury Note Mailing List

If you would like to be on the mailing list to receive *The Treasury Note* monthly, please send your name and address to the Investor Relations Program at the address below.

STO on the Internet

Locate the State Treasurer's Office on the California Home Page or at our own web site: <http://www.treasurer.ca.gov>

Listing of Redemptions

This listing reflects redemptions officially announced as of September 1, 1996. These bonds will be redeemed on October 1, 1996.

State of California Veterans Bonds, Series AY (Partial redemption)

\$6,600,000 due April 1, 2019 will be redeemed.

If you have any questions regarding the purpose or timing of these calls, please call (916) 653-3451. For redemption payment or registration information, please call (916) 653-2884.



The Treasury Note is 1 year old!

Bond Sales Calendar*

If you are interested in purchasing any of these bonds, please contact your broker about two weeks before the sale date. For updated information regarding sales dates, please contact the State Treasurer's Office at (916) 653-3243.

BOND SALES	AMOUNT in millions	SALE DATE
General Obligation Bonds	\$600	October 1996
California State University-Student Unions & Housing	\$18	October 1996
San Francisco State Office Building, JPA Lease Purchase Revenue Bonds	\$321	November 1996
California State University Student Union	\$7	December 1996
Oakland State Office Building, JPA Lease Purchase Revenue Bonds	\$175	Spring 1997
State Public Works Board, California Museum of Science and Industry, Lease Purchase Revenue Bonds	\$32	Spring 1997

*Subject to change